

BATES TOWNSHIP

Financial Report
With Supplemental Information
Prepared in Accordance with GASB 34

March 31, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name BATES TOWNSHIP	County IRON
Audit Date 3/31/05	Opinion Date 5/17/05	Date Accountant Report Submitted to State: 9/27/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

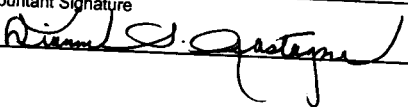
Certified Public Accountant (Firm Name) DS ROSTAGNO, CPA, P.C.			
Street Address 101 WEST MAPLE STREET			
Accountant Signature 	City IRON RIVER	State MI	ZIP 49935
		Date 9/27/05	

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	4
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	7
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS.....	22
STATEMENT OF ACTIVITIES.....	23
BALANCE SHEET - GOVERNMENTAL FUNDS	24
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS.....	26
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS	27
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	28
STATEMENT OF FUND NET ASSETS - ENTERPRISE FUNDS	29
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - ENTERPRISE FUNDS	30
STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS	31
STATEMENT OF FIDUCIARY NET ASSETS	32
NOTES TO THE FINANCIAL STATEMENTS.....	35
REQUIRED SUPPLEMENTAL INFORMATION	
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND	110
BUDGETARY COMPARISON SCHEDULE - ROAD REPAIR FUND	111
BUDGETARY COMPARISON SCHEDULE - ROAD REPAIR FUND	112
OTHER SUPPLEMENTAL INFORMATION	
BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUND	113
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE - NON-MAJOR GOVERNMENTAL FUND.....	114
COMBINING BALANCE SHEET- ALL SPECIAL REVENUE FUNDS	115
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY - ALL SPECIAL REVENUE FUNDS	116
COMBINING BALANCE SHEET - ALL PROPRIETARY FUND TYPES.....	117
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES.....	118
BALANCE SHEET - GENERAL FUND	119
STATEMENT OF REVENUES - GENERAL FUND	120
STATEMENT OF EXPENDITURES - GENERAL FUND	121
STATEMENT OF EXPENDITURES - GENERAL FUND	122

TABLE OF CONTENTS

(Continued)

	<u>Page</u>
OTHER SUPPLEMENTAL INFORMATION (Continued)	
BALANCE SHEET - LIQUOR LAW ENFORCEMENT FUND	126
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY - LIQUOR LAW ENFORCEMENT FUND	127
BALANCE SHEET - ROAD REPAIR FUND	128
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY - ROAD REPAIR FUND.....	129
BALANCE SHEET - WATER FUND	130
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS - WATER FUND	131
STATEMENT OF CASH FLOWS - WATER FUND.....	132
BALANCE SHEET - SEWER FUND	134
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS - SEWER FUND	135
STATEMENT OF CASH FLOWS - SEWER FUND	136
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - TRUST AND AGENCY FUNDS.....	138
 INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING.....	 139

INDEPENDENT AUDITOR'S REPORT

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

Board of Trustees
Bates Township
Iron River, Michigan 49935

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of **Bates Township**, as of and for the fiscal year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Trustees, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

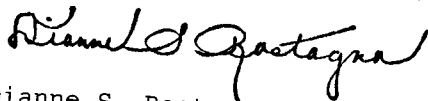
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Bates Township** at March 31, 2005, and the respective changes in financial position and cash flows thereof for the fiscal year ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2005 on our consideration of **Bates Township's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 8 through 21 and the budgetary comparison information are not required parts of the basic financial statements but are supplemental information required by the *Governmental Accounting Standards Board* and by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of the inquires of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise **Bates Township's** basic financial statements. The combining and individual fund financial statements are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

May 17, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

BATES TOWNSHIP

3070 EAST U.S. 2
Iron River, MI 49935
(906) 265-2787

ROBERT NELSON, Supervisor
(906) 265-2909

PUNNER FRANZENE, Treasurer

BARBARA MONCIVAIS, Clerk
(906) 265-3060

ERNEST J. SCHMIDT, Trustee

The management of **Bates Township** provides this narrative overview and analysis of the financial activities of **Bates Township** for the fiscal year ended March 31, 2005. As readers, you are encouraged to read this discussion and analysis in conjunction with the Township's financial statement information included in this report.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The financial section of this report includes management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Township that are mainly supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the Township include general government, legislative, public safety, public works, Township property, and culture and recreation. The business-type activities of the Township include Water and Sewer utility services.

BATES TOWNSHIP

3070 EAST U.S. 2
Iron River, MI 49935
(906) 265-2787

ROBERT NELSON, Supervisor
(906) 265-2909

BARBARA MONCIVAIS, Clerk
(906) 265-3060

PUNNER FRANZENE, Treasurer

ERNEST J. SCHMIDT, Trustee

Fund Financial Statements

The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. In the basic financial statements, the emphasis of the fund financial statements is on major funds. All of the funds of the Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating the Township's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. In order to provide the reader with information to better understand the long-term impact of the government's near-term financing decisions, a reconciliation between the government-wide financial statements is included as part of the basic financial statements.

The Township maintains three governmental funds. Information is presented separately in the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balance for the general and road repair funds, both of which are considered major funds. The Liquor Law Enforcement Fund is a non-major governmental fund.

Individual fund data for each fund is presented separately in the "Other Supplementary Information" section of this report.

BATES TOWNSHIP

3070 EAST U.S. 2
Iron River, MI 49935
(906) 265-2787

ROBERT NELSON, Supervisor
(906) 265-2909

BARBARA MONCIVAIS, Clerk
(906) 265-3060

PUNNER FRANZENE, Treasurer

ERNEST J. SCHMIDT, Trustee

Governmental Funds (Continued)

The Township adopts an annual budget for its general and other governmental funds. To demonstrate compliance with this budget, a budgetary comparison statement has been provided for the general and other major governmental funds, and is included in the "Required Supplementary Information" section of this document.

Proprietary Funds

Proprietary Funds provide services for which the Township charges customers a fee. The Township has only one type of proprietary fund - an enterprise fund. The enterprise fund of the Township is used to report the same functions as the business-type activities in the government-wide financial statements. The Water and Sewer Utility Funds are presented separately in both the government-wide financial statements and the fund financial statements and are both considered major funds. Enterprise funds are used to account for operations very similar to business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The fiduciary fund for the Township is the Tax Collection Fund. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. This fund is presented separately in the fund financial statements section of the basic financial statements.

Notes to the Financial Statements

Notes to the financial statements are included in the basic financial statements, and provide additional information that is essential for a full understanding of the data provided in the government-wide and the fund financial statements.

BATES TOWNSHIP

3070 EAST U.S. 2
Iron River, MI 49935
(906) 265-2787

ROBERT NELSON, Supervisor
(906) 265-2909

BARBARA MONCIVAIS, Clerk
(906) 265-3060

PUNNER FRANZENE, Treasurer

ERNEST J. SCHMIDT, Trustee

Supplementary Information

Required supplementary information follows the basic financial statements, and includes budgetary comparison schedules for the General Fund and the Township's major special revenue funds as presented in the governmental fund financial statements.

A separate financial statement for the Township's non-major governmental funds is also included in the Other Supplementary Information section of this document.

Government-wide Financial Analysis

In time, net assets of a governmental entity may serve as a useful indicator of the government's financial position. In the case of the Township, assets exceeded liabilities by \$ 2,872,523 at March 31, 2005.

By far, the largest portion of the Township's net assets is its investment in capital assets (land, buildings, machinery, and equipment), less any outstanding debt related to acquiring the asset. These capital assets are used to provide services to citizens and are not available for future spending. The Township had \$ 1,576,000 in related outstanding debt at March 31, 2005; hence the Township reported \$ 2,387,204 in net assets invested in capital assets, net of related debt.

External restrictions of the Township's net assets represent resources subject to existing external obligations or programmatic control on future use. The remaining balance of unrestricted net assets of \$ 205,346 may be used to meet the Township's ongoing obligations to citizens and creditors.

Total net assets in excess of liabilities at March 31 for the governmental activities and business-type activities were \$ 341,832 and \$ 2,530,691, respectively.

BATES TOWNSHIP

3070 EAST U.S. 2
Iron River, MI 49935
(906) 265-2787

ROBERT NELSON, Supervisor
(906) 265-2909

BARBARA MONCIVAIS, Clerk
(906) 265-3060

PUNNER FRANZENE, Treasurer

ERNEST J. SCHMIDT, Trustee

Government-wide Financial Analysis (Continued)

The following is a comparative summary of net assets at fiscal years ended March 31, 2005 and March 31, 2004:

	March 31, 2005		
	Primary Government		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<u>Assets</u>			
Current and other assets	\$ 229669	\$ 287947	\$ 517616
Capital assets, net	<u>114449</u>	<u>3848755</u>	<u>3963204</u>
Total Assets	344118	4136702	4480820
<u>Liabilities</u>			
Long-term liabilities	\$ 0	\$ 1532000	\$ 1532000
Other liabilities	<u>2286</u>	<u>74011</u>	<u>76297</u>
Total Liabilities	2286	1606011	1608297
<u>Net Assets</u>			
Invested in capital assets, net of related debt	114449	2272755	2387204
Restricted	22037	257936	279973
Unrestricted	<u>205346</u>	<u>0</u>	<u>205346</u>
Total Net Assets	\$ 341832	\$ 2530691	\$ 2872523

BATES TOWNSHIP

3070 EAST U.S. 2
Iron River, MI 49935
(906) 265-2787

ROBERT NELSON, Supervisor
(906) 265-2909

BARBARA MONCIVAIS, Clerk
(906) 265-3060

PUNNER FRANZENE, Treasurer

ERNEST J. SCHMIDT, Trustee

Government-wide Financial Analysis (Continued)

	March 31, 2004		
	Primary Government		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<u>Assets</u>			
Current and other assets	\$ 134061	\$ 410483	\$ 544544
Capital assets, net	<u>113341</u>	<u>4011542</u>	<u>4124883</u>
Total Assets	247402	4422025	4669427
<u>Liabilities</u>			
Long-term liabilities	\$ 0	\$ 1576000	\$ 1576000
Other liabilities	<u>2237</u>	<u>61365</u>	<u>63602</u>
Total Liabilities	2237	1637365	1639602
<u>Net Assets</u>			
Invested in capital assets, net of related debt	113341	2397542	2510883
Restricted	639	281464	282103
Unrestricted	<u>131185</u>	<u>105654</u>	<u>236839</u>
Total Net Assets	\$ 245165	\$ 2784660	\$ 3029825

For governmental activities, net assets increased by \$ 4,762 during the fiscal year. For business-type activities, net assets decreased by \$ 165,290 during the fiscal year. Both were calculated prior to the adjustment for a change in the application of an accounting principle.

BATES TOWNSHIP

3070 EAST U.S. 2
Iron River, MI 49935
(906) 265-2787

ROBERT NELSON, Supervisor
(906) 265-2909

BARBARA MONCIVAIS, Clerk
(906) 265-3060

PUNNER FRANZENE, Treasurer

ERNEST J. SCHMIDT, Trustee

Government-wide Financial Analysis (Continued)

The following represents the comparative changes in net assets for both governmental and business-type activities for fiscal years ended March 31, 2005 and March 31, 2004:

	March 31, 2005		
	Governmental	Primary Government	
	Activities	Business-type	Total
<u>REVENUES</u>			
Program Revenues			
Charges for Services	\$ 19625	\$ 274013	\$ 293638
Operating grants/contributions	11711		11711
General Revenues			
Property taxes	127932		127932
Other taxes	15009		15009
Unrestricted grants	74133		74133
Other	7274	6338	13612
Total Revenues	255684	280351	536035
<u>EXPENSES</u>			
General government	\$ 79396	\$	\$ 79396
Legislative	15676		15676
Township property	30525		30525
Public safety	19414		19414
Public works	69484		69484
Culture and recreation	30542		30542
Depreciation	5885		5885
Total governmental expenses	\$ 250922	\$ -0-	\$ 250922
Business-type activities:			
Water		315451	315451
Sewer		130190	130190
Total business-type expenses	-0-	445641	445641
TOTAL EXPENSES	\$ 250922	\$ 445641	\$ 696563

BATES TOWNSHIP

3070 EAST U.S. 2
Iron River, MI 49935
(906) 265-2787

ROBERT NELSON, Supervisor
(906) 265-2909

BARBARA MONCIVAIS, Clerk
(906) 265-3060

PUNNER FRANZENE, Treasurer

ERNEST J. SCHMIDT, Trustee

Government-wide Financial Analysis (Continued)

	March 31, 2005		
	Primary Government		
	Governmental Activities	Business-type Activities	Total
Increase (Decrease) in net assets before transfers	\$ 4762	\$ (165290)	\$ (160528)
Transfers - net	0	0	0
Increase (Decrease) in Net Assets	4762	(165290)	(160528)
Net Assets, beginning of year	245165	2784660	3029825
Cumulative effect of a change in the application of accounting principle	91905	(88679)	3226
Net Assets, end of year	\$ <u>341832</u>	\$ <u>2530691</u>	\$ <u>2872523</u>

	March 31, 2004		
	Primary Government		
	Governmental Activities	Business-type Activities	Total
REVENUES			
Program Revenues			
Charges for Services	\$ 18627	\$ 296221	\$ 314848
Operating grants/contributions	0		0
General Revenues			
Property taxes	122937		122937
Other taxes	12822		12822
Unrestricted grants	78762		78762
Other	3643	5789	9432
Total Revenues	\$ <u>236791</u>	\$ <u>302010</u>	\$ <u>538801</u>

BATES TOWNSHIP

3070 EAST U.S. 2
Iron River, MI 49935
(906) 265-2787

ROBERT NELSON, Supervisor
(906) 265-2909

BARBARA MONCIVAIS, Clerk
(906) 265-3060

PUNNER FRANZENE, Treasurer

ERNEST J. SCHMIDT, Trustee

Government-wide Financial Analysis (Continued)

EXPENSES	March 31, 2004		
	Governmental Activities	Primary Government Business-type Activities	Total
General government	\$ 72289	\$	\$ 72289
Legislative	13598		13598
Township property	30305		30305
Public safety	31182		31182
Public works	152021		152021
Culture and recreation	33576		33576
Depreciation	13714		13714
Total governmental expenses	\$ 346685	\$ -0-	\$ 346685
<u>Business-type activities:</u>			
Water		305797	305797
Sewer		116832	116832
Total business-type expenses	-0-	422629	422629
TOTAL EXPENSES	\$ 346685	\$ 422629	\$ 769314
Increase (Decrease) in net assets before transfers	(109894)	(120619)	(230513)
Transfers - net	0	0	0
Increase (Decrease) in Net Assets	(109894)	(120619)	(230513)
Net Assets, beginning of year	355059	2905279	3260338
Net Assets, end of year	\$ 245165	\$ 2784660	\$ 3029825

BATES TOWNSHIP

3070 EAST U.S. 2
Iron River, MI 49935
(906) 265-2787

ROBERT NELSON, Supervisor
(906) 265-2909

BARBARA MONCIVAIS, Clerk
(906) 265-3060

PUNNER FRANZENE, Treasurer

ERNEST J. SCHMIDT, Trustee

Governmental Activities

Property taxes and other tax revenues comprise \$ 142,941 or approximately 56 percent of total governmental revenues.

The Township also collected \$ 19,625 for services provided. And, at fiscal year-end, the Township reported \$ 74,133 in grants and contributions not restricted for specific programs. This amount was due entirely to the State of Michigan's state sales tax distribution, and comprises approximately 29 percent of total governmental revenues.

The Township expended \$ 250,922 on governmental programs and services. Some of the largest expense categories were for general government, where \$ 79,396, or 32 percent of total governmental expenditures were reported. Public works expenditures were \$ 69,484 or 28 percent of total governmental expenditures. A total of \$ 30,525 was expended on the maintenance of Township property.

Business-type Activities

Business-type activities decreased the Township's net assets by \$ 165,290. Charges for services for the Water and Sewer activities for the year ended were \$ 187,546 and \$ 86,467, respectively. Total expenses for the Water and Sewer activities for the year ended were \$ 315,451 and \$ 130,190, respectively.

Financial Analysis of the Governmental Funds

As previously noted, the Township uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds

The focus of the Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is useful in assessing the Township's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

BATES TOWNSHIP

3070 EAST U.S. 2
Iron River, MI 49935
(906) 265-2787

ROBERT NELSON, Supervisor
(906) 265-2909

BARBARA MONCIVAIS, Clerk
(906) 265-3060

PUNNER FRANZENE, Treasurer

ERNEST J. SCHMIDT, Trustee

Governmental Funds (Continued)

The Township's governmental funds reported combined ending fund balances of \$ 227,383 of which \$ 22,037 is reserved and the remaining \$ 205,346 is available for spending at the government's discretion.

The Township's primary governmental fund is its general fund. There are no reservations in the general fund's fund balance.

On the budgetary basis of accounting, the Township ended the fiscal year with revenues very close to the original and final projections. Total expenditures were slightly higher than the original and very close to the final projections. Because of this, at fiscal year-end, the fund balance was slightly lower than either the original or the final amended budget projections.

Revenues - Budget vs Actual for Fiscal Year Ended March 31, 2005

	<u>Revenues Original Budget</u>	<u>Revenues Final Budget</u>	<u>Revenues Final Actual</u>	<u>Revenues Variance Actual vs Original Budget</u>	<u>Revenues Variance Actual vs Final Budget</u>
General Fund	\$ 217800	\$ 217800	\$ 217808	\$ 8	\$ 8
Road Fund	30828	30828	37491	6663	6663

Expenditures - Budget vs Actual for Fiscal Year Ended Mrch 31, 2005

	<u>Expenditures Original Budget</u>	<u>Expenditures Final Budget</u>	<u>Expenitures Final Actual</u>	<u>Expenditures Variance Actual vs Original Budget</u>	<u>Expenditures Variance Actual vs Final Budget</u>
General Fund	\$ 217800	\$ 205472	\$ 235552	\$ (17752)	\$ (30080)
Road Fund	30828	30828	16064	14764	14764

BATES TOWNSHIP

3070 EAST U.S. 2
Iron River, MI 49935
(906) 265-2787

ROBERT NELSON, Supervisor
(906) 265-2909

BARBARA MONCIVAIS, Clerk
(906) 265-3060

PUNNER FRANZENE, Treasurer

ERNEST J. SCHMIDT, Trustee

Governmental Funds (Continued)

General fund financial and budgetary highlights of the fiscal year include:

- * Property taxes, administration fees, and other taxes fell short of budgetary projections by \$ 3,876.
- * State sales tax distributions were down from the original and final amended budget, coming in at \$ 78,795, which is less than the budget estimates of \$ 80,000.
- * Expenditures in total for the general fund were \$ 235,552, more than the final amended budget of \$ 205,472 by \$ 30,080. This was due, in part, to the fact that expenditures for capital outlay of \$ 6,993 had not been budgeted.

Major special revenue fund financial and budgetary highlights of the fiscal year include:

- * In the Road Fund, which is the only major special revenue fund, the Township received funds under the Metro Act which had not been budgeted in the amount of \$ 6,664.
- * Expenditures in the Road Fund for road repair were \$ 16,064, compared to the budgeted amount of \$ 30,828.

Proprietary Funds

The Township's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Net assets of the Water Fund at year-end were \$ 1,608,175: of this amount \$ 1,495,076 of Township equity in the Water Fund was invested in capital assets, net of related debt, \$ 135,838 was held in restricted accounts in compliance with bonding ordinances.

The change in net assets was a loss of \$ 125,186.

BATES TOWNSHIP

3070 EAST U.S. 2
Iron River, MI 49935
(906) 265-2787

ROBERT NELSON, Supervisor
(906) 265-2909

BARBARA MONCIVAIS, Clerk
(906) 265-3060

PUNNER FRANZENE, Treasurer

ERNEST J. SCHMIDT, Trustee

Proprietary Funds (Continued)

Net assets of the Sewer Fund at year-end were \$ 922,516. A total of \$ 134,087 in cash was held in restricted accounts in compliance with bonding ordinances, and \$ 777,679 is invested in capital assets, net of related debt. The change in net assets was a loss of \$ 40,104.

Capital Assets and Debt Administration

Capital Assets

The Township's investment in capital assets, net of accumulated depreciation, for its governmental and business-type activities as of March 31 were \$ 114,449 and \$ 2,272,755, respectively. The investment in capital assets includes land, buildings, improvements, infrastructure, machinery and equipment, and licensed vehicles.

Infrastructure assets represent \$ 6,538,290 or approximately 95 percent of the estimated original cost of total assets. The infrastructure is accounted for in the Water and Sewer Funds. There is no infrastructure attributed to the General Fund.

Major capital events during the current fiscal year included:

* Upgrade controls on the well house -	\$11,066
* Waterlines on East Park Drive -	\$ 44,888
* New roof on park pavilion -	\$ 2,950
* Plumbing improvements at the park -	\$ 2,235

Long-term debt

As of March 31, the Township (including the enterprise funds) had total bonded debt outstanding of \$ 1,576,000. This debt is the result of bonds issued for the water supply system project, with a balance outstanding in the amount of \$ 1,305,000, and for the sanitary sewage system with a remaining balance of \$ 271,000. All of the Township's bonded debt represents bonds secured by specified revenue sources, (i.e., revenue bonds).

BATES TOWNSHIP

**3070 EAST U.S. 2
Iron River, MI 49935
(906) 265-2787**

**ROBERT NELSON, Supervisor
(906) 265-2909**

**BARBARA MONCIVAIS, Clerk
(906) 265-3060**

PUNNER FRANZENE, Treasurer

ERNEST J. SCHMIDT, Trustee

Long-term debt (Continued)

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. Since the Township has no general obligation debt, this is not currently a concern to the Township.

Other Economic Factors and Next Year's Budget

Economic Factors

Currently, the State of Michigan is experiencing a severe budgetary crisis. As such, it is anticipated that future state budget cuts will likely translate into strategic reductions of Township expenses to maintain a fiscally sound budget.

Despite the poor outlook of the State's budget, the Township will continue to strive to provide good social and cultural conditions that support healthy families, and maintain a safe and clean community in which to live.

The Township's fiscal year 2005-2006 general fund budget is \$ 214,300 representing a slight decrease from the previous fiscal year.

There are no significant plans or major priorities for the Township for the 2005-2006 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the Township's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

**Township Supervisor
Bates Township
3070 East US-2
Iron River, Michigan 49935**

BASIC FINANCIAL STATEMENTS

BATES TOWNSHIP

STATEMENT OF NET ASSETS

MARCH 31, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total Reporting Entity
<u>ASSETS</u>			
<u>Current Assets</u>			
Cash and Cash Equivalents (Note C)	\$ 139391	\$ 41343	\$ 180734
Receivables			
Taxes	12092		12092
Accounts Receivable		50358	50358
Internal Balances	73679	-73679	0
Due from External Parties	4507		4507
Total Current Assets	229669	18022	247691
<u>Noncurrent Assets</u>			
Cash and Cash Equivalents, Restricted		269925	269925
Capital Assets, Net (Note H)	114449	3848755	3963204
Total Noncurrent Assets	114449	4118680	4233129
TOTAL ASSETS	\$ 344118	\$ 4136702	\$ 4480820
<u>LIABILITIES</u>			
<u>Current Liabilities</u>			
Accounts Payable		11111	11111
Accrued Interest			0
Accrued Taxes	2286		2286
Deferred Revenue		18900	18900
Current portion of long-term debt		44000	44000
Total Current Liabilities	2286	74011	76297
<u>Noncurrent Liabilities</u>			
Revenue Bonds Payable	0	1532000	1532000
Total Noncurrent Liabilities	0	1532000	1532000
TOTAL LIABILITIES	2286	1606011	1608297
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	114449	2272755	2387204
Restricted for Liquor Law Enforcement	610		610
Reserved for Road Repair	21427		21427
Reserved for Utility Services		257936	257936
Unrestricted	205346		205346
TOTAL NET ASSETS	\$ 341832	\$ 2530691	\$ 2872523

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2005

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants & Contributions</u>	<u>Capital Grants</u>
Primary Government -				
General government	\$ 79396	\$ 15025	\$ 0	\$ 0
Legislative	15676			
Township property	30525	1825		
Public safety	19414			
Public works	69484		385	
Culture and recreation	30542	2775	11326	
Depreciation (Unallocated)	5885			
Total Governmental Activities	250922	19625	11711	0
<u>Business-type Activities</u>				
Water Utility	315451	187546		
Sewer Utility	130190	86467		
Total Business-type Activities	445641	274013		

General Revenues:

Taxes:
 Property taxes levied for general operations
 Property taxes levied for roads
 Other taxes and fees
 State Sales Tax Distribution
 Sale of Property
 Interest and Investment Earnings
 Other

Total General Revenues

Change in Net Assets

NET ASSETS - BEGINNING OF YEAR

Cumulative effect of a change in the application of accounting principle

NET ASSETS - END OF YEAR

BATES TOWNSHIP

STATEMENT OF ACTIVITIES

YEAR ENDED MARCH 31, 2005

*Net (Expense) Revenue and Changes
in Net Assets*

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (64371)		\$ (64371)
(15676)		(15676)
(28700)		(28700)
(19029)		(19029)
(58158)		(58158)
(27767)		(27767)
<u>(5885)</u>		<u>(5885)</u>
(219586)		(219586)
	(127905)	(127905)
	<u>(43723)</u>	<u>(43723)</u>
	(171628)	(171628)
97105		97105
30827		30827
15009		15009
74133		74133
1254	5538	0
<u>6020</u>	<u>800</u>	<u>6792</u>
224348	6338	230686
4762	(165290)	(160528)
245165	2784660	3029825
91905	(88679)	3226
<u>\$ 341832</u>	<u>\$ 2530691</u>	<u>\$ 2872523</u>

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

**BALANCE SHEET
GOVERNMENTAL FUNDS**

MARCH 31, 2005

	<u>General Fund</u>	<u>Road Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Cash and Investments (Note C)				
Unrestricted	\$ 138570	\$ 0	\$ 821	\$ 139391
Receivables:				
Taxes	12092			12092
Accounts Receivable				
Due from Other Funds	78397	21427		99824
TOTAL ASSETS	<u>\$ 229059</u>	<u>\$ 21427</u>	<u>\$ 821</u>	<u>\$ 251307</u>
<u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES</u>				
Accrued Taxes	2286			2286
Due to Other Funds	21427		211	21638
TOTAL LIABILITIES	23713	0	211	23924
<u>FUND BALANCES</u>				
Reserved for Road Repair		21427		21427
Reserved for Liquor Law Enforcement			610	610
Unreserved and undesignated	205346			205346
TOTAL FUND BALANCES	205346	21427	610	227383
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 229059</u>	<u>\$ 21427</u>	<u>\$ 821</u>	<u>\$ 251307</u>

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

GOVERNMENTAL FUNDS

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS

MARCH 31, 2005

Fund Balances - Total Governmental Funds

\$ 227383

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities
are not financial resources and are not
reported in the funds.

The cost of capital assets is:

279311

Accumulated depreciation is:

(164862)

Long term liabilities are not due and payable
in the current period and are not reported
in the funds:

Bonds Payable

0

Compensated Absences

0

Other long term assets not available to pay
current period expenditures therefore
deferred in the funds

0

Accrued interest is not included as a liability
in governmental funds

0

Total Net Assets - Governmental Activities

\$ 341832

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES**

YEAR ENDED MARCH 31, 2005

	<u>General Fund</u>	<u>Road Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenue</u>				
General Property taxes	\$ 97105	\$ 30827	\$ 0	\$ 127932
Other local taxes and fees	15009			15009
Use of money and property	3079			3079
Charges for services	16875			16875
Miscellaneous	6945			6945
Intergovernmental	78795			78795
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenue	217808	37491	385	255684
<u>Expenditures</u>				
Current Operating:				
General government	79396			79396
Legislative	15676			15676
Township property	30525			30525
Public safety	19000			19000
Public works	53420			53420
Culture and recreation	30542	16064	414	69484
Capital Outlay	6993			6993
Intergovernmental Payments				0
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	235552	16064	414	252030
Excess (Deficiency) of Revenues Over Expenditures	(17744)	21427	(29)	3654
<u>Other Financing Sources (Uses)</u>				
Operating transfers in				
Operating transfers out				
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Sources(Uses)	0	0	0	0
Net Change in Fund Balances	(17744)	21427	(29)	3654
Fund Balances -Beginning of year	223090	0	639	223729
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balances -End of year	\$ 205346	\$ 21427	\$ 610	\$ 227383
	<hr/>	<hr/>	<hr/>	<hr/>

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

GOVERNMENTAL FUNDS

**RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED MARCH 31, 2005

Net Change in Fund Balances - Total Governmental Funds **\$ 3654**

Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlays as expenditures; in
the statement of activities, these costs are allocated over their
estimated useful lives as depreciation.

Depreciation Expense

(5885)

Capital Outlay

6993

Total

1108

Revenue reported in the statement of activities that does not provide
current financial resources and are not reported as revenue
in the governmental funds

0

Accrued interest is recorded in the statement of activities when
incurred; it is not reported in governmental funds until paid

0

Repayment of bond principal is an expenditure in the governmental
funds, but not in the statement of activities (where it reduces
long term debt)

0

Increases (Decreases) in compensated absences are reported as
expenditures when financial resources are used in the governmental
funds in accordance with GASB Interpretation No. 6

0

Eliminate interfund transfers to non-governmental funds

0

Change in Net Assets of Governmental Activities

\$ 4762

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

**STATEMENT OF FUND NET ASSETS
ENTERPRISE FUNDS**

MARCH 31, 2005

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
<u>ASSETS</u>			
<i>Current Assets:</i>			
Cash, unrestricted	\$ 7868	\$ 33475	\$ 41343
Accounts Receivable, net	40864	9494	50358
Internal Balances	(44829)	(28850)	(73679)
Total Current Assets	3903	14119	18022
<i>Noncurrent Assets:</i>			
Restricted cash	135838	134087	269925
Capital assets:			
Buildings	0	0	0
Equipment	26964	5412	32376
Infrastructure	3843247	2695043	6538290
Less:			
Allowance for depreciation	(1070135)	(1651776)	(2721911)
Total capital assets, net	2800076	1048679	3848755
Total Noncurrent Assets	2935914	1182766	4118680
TOTAL ASSETS	\$ 2939817	\$ 1196885	\$ 4136702
<u>LIABILITIES</u>			
<i>Current Liabilities:</i>			
Accounts payable	7742	3369	11111
Accrued interest	0	0	0
Current portion of long-term debt	25000	19000	44000
Deferred revenues	18900	0	18900
Total Current Liabilities	51642	22369	74011
<i>Non-current Liabilities:</i>			
Revenue bonds payable	1280000	252000	1532000
Total Non-current Liabilities	1280000	252000	1532000
TOTAL LIABILITIES	1331642	274369	1606011
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	1495076	777679	2272755
Reserved for Utility Services	113099	144837	257936
Unreserved	0	0	0
TOTAL NET ASSETS	\$ 1608175	\$ 922516	\$ 2530691

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

ENTERPRISE FUNDS

MARCH 31, 2005

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Enterprise Funds</u>
<u>Operating Revenues:</u>			
Charges for Services	\$ 187546	\$ 86467	\$ 274013
Miscellaneous	600	200	800
Total Operating Revenues	188146	86667	274813
<u>Operating Expenses:</u>			
Personal Services and Benefits	36970	29271	66241
Contractual Services	9418		9418
Repairs and Maintenance	30541	15180	45721
Other Supplies and Expenses			0
Administrative Expenses	5269	1938	7207
Water Purchases	13861		13861
Depreciation	150355	69935	220290
Miscellaneous			0
Total Operating Expenses	246414	116324	362738
Operating Income (Loss)	(58268)	(29657)	(87925)
Non-Operating Revenues (Expenses):			
Interest and Investment Revenue	2119	3419	5538
Interest Expense	(69037)	(13866)	(82903)
Total Non-Operating Revenues (Expenses)	(66918)	(10447)	(77365)
Change in Net Assets	(125186)	(40104)	(165290)
NET ASSETS, BEGINNING OF YEAR	1733361	962620	2695981
NET ASSETS, END OF YEAR	\$ 1608175	\$ 922516	\$ 2530691

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

**STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS**

FISCAL YEAR ENDED MARCH 31, 2005

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
CASH FLOWS FROM (USED BY)			
<u>OPERATING ACTIVITIES</u>			
Net cash received from fees and services	\$ 183491	\$ 87065	\$ 270556
Other operating revenues	600	200	800
Cash payments to employees for services	(36970)	(29271)	(66241)
Cash payments to goods and services	(51859)	(17118)	(68977)
Other operating expenses	0	0	0
NET CASH FROM OPERATING ACTIVITIES	95262	40876	136138
<u>NON CAPITAL AND FINANCING ACTIVITIES</u>			
Increase (decrease) in due to other funds	0	(15000)	(15000)
(Increase) decrease in due from other funds	0	0	0
Net operating transfers in (out)	0	0	0
NET CASH FROM NON CAPITAL AND FINANCING ACTIVITIES	0	(15000)	(15000)
<u>CAPITAL AND RELATED FINANCING ACTIVITIES</u>			
Acquisition and construction of capital assets	(57503)	0	(57503)
Principal payment on long-term bonds	(20000)	(18000)	(38000)
Interest paid on long-term bonds	(69037)	(14450)	(83487)
Interest and tax expense	0	0	0
Proceeds from borrowings	0	0	0
Contributed capital grants	0	0	0
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(146540)	(32450)	(178990)
<u>INVESTING ACTIVITIES</u>			
Interest Income	2119	3419	5538
NET CASH FROM INVESTING ACTIVITIES	2119	3419	5538
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(49159)	(3155)	(52314)
Cash and Cash Equivalents, Beginning of Year	192865	170717	363582
Cash and Cash Equivalents, End of Year	\$ 143706	\$ 167562	\$ 311268

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

**STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

**CASH FLOWS FROM OPERATING
ACTIVITIES**

Operating Income	\$ (58268)	\$ (29657)	\$ (87925)
Adjustment to reconcile operating income to net cash provided by operating activities:			
. Depreciation	150355	69935	220290
. Provision for uncollectible accounts	0	0	0
. Changes in assets and liabilities :			
(Increase) Decrease in accounts receivable	(4055)	598	(3457)
Increase (Decrease) in accounts payable	7230	0	7230
Increase (Decrease) in deferred revenue	0	0	0
Increase (Decrease) in customer deposits	0	0	0
NET CASH FROM OPERATING ACTIVITIES	<u>\$ 95262</u>	<u>\$ 40876</u>	<u>\$ 136138</u>

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

FIDUCIARY FUND

STATEMENT OF FIDUCIARY NET ASSETS

MARCH 31, 2005

<u>ASSETS</u>	<u>Agency Fund</u>
Cash and Cash Equivalents	<u>\$ 27660</u>
TOTAL ASSETS	\$ 27660
 <u>LIABILITIES</u>	
Due to Other Funds	4507
Due to Other Governmental Units	<u>23153</u>
TOTAL LIABILITIES	\$ 27660
 NET ASSETS	 <u><u>\$ 0</u></u>

The notes to the financial statements are an integral part of this report.

NOTES TO THE FINANCIAL STATEMENTS

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting methods and procedures adopted by **Bates Township**, Iron River, Michigan, conform to generally accepted accounting principles as applicable to governmental entities. The following is a summary of the more significant policies:

THE FINANCIAL REPORTING ENTITY

The Township was organized in 1885 and covers an area of approximately 80990 acres. The Township operates under an elected board of commissioners (5 people) and provides services to its approximately 966 residents in many areas including law enforcement, general administration and water and sewer services. In accordance with the provisions of GASB 14, certain other governmental organizations are not considered to be part of the Township entity for financial reporting purposes. The criteria established by GASB 14 for determining the various governmental organizations to be included in the reporting entity's financial statements include separation of electing governing body and legal status, and fiscal independence.

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

THE FINANCIAL REPORTING ENTITY (Continued)

On this basis, the financial statements of certain other governmental organizations are not included in the financial statements of the Township as discretely presented component units.

BLENDED COMPONENT UNITS

A blended component unit is a legally separate entity from the local unit, but it is so intertwined with the unit that it is, in substance, the same as the local governmental unit.

A basic strategy of GASB 14 is to present financial information for component units separately from the financial information for the primary government. This is achieved through the discrete presentation method. However, in the case of blended component units, GASB believes that it would be more appropriate to use the blending method to incorporate the financial information of a component unit into the reporting entity's financial statements.

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BLENDED COMPONENT UNITS (Continued)

When the blending method is used, transactions and balances of a component unit are merged with similar transactions and balances of the primary government so that there is no way to identify which balances relate to the component unit and which relate to the primary government.

On this basis, there are no blended component units to be reported.

JOINT VENTURES

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or an ongoing financial responsibility.

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINT VENTURES (Continued)

An ongoing financial responsibility is determined as a participating government's obligation in some manner for debts or the joint venture's existence depends on continued funding by the participating government.

There are no joint ventures to be reported.

JOINTLY GOVERNED ORGANIZATIONS

A jointly governed organization is a multi-governmental arrangement that is governed by representatives from each of the governments that create the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility.

West Iron County Fire Board

The West Iron County Fire Board was organized in 1987 and provides fire protection for Iron River, Bates and Stambaugh Townships, and the City of Iron River, Iron County, Michigan.

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINTLY GOVERNED ORGANIZATIONS (Continued)

West Iron County Fire Board (Continued)

The Board operates under an appointed Board of Commissioners (9 people) and provides fire protection services to more than 4500 residents.

The Board is funded by assessments from the participating municipalities.

Financial statements are available by writing to:

West Iron County Fire Board
P.O.Box 203
Iron River, Michigan 49935

West Iron County Volunteer Fire Department

The West Iron County Volunteer Fire Department was organized in 1987 and consists of volunteer fire fighters from the City of Iron River and the Townships of Bates, Iron River, and Stambaugh.

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINTLY GOVERNED ORGANIZATIONS (Continued)

West Iron County Volunteer Fire Department
(Continued)

The purpose of the organization is to preserve and protect all life and property as declared by the West Iron County Fire Board.

The officers, elected by a plurality of votes of members present at the annual meeting consist of a Chief, Assistant Chief, First Captain, Second Captain, Training Officer, and Secretary/Treasurer.

Complete financial statements of the West Iron County Volunteer Fire Department can be obtained from:

West Iron County Volunteer Fire Department
640 9th Street
Iron River, Michigan 49935

BATES TOWNSHIP

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RELATED ORGANIZATIONS

A related organization is an organization for which a primary government is not financially accountable (because it does not impose will or have a financial benefit or burden relations) even though the primary government appoints a voting majority of the organization's governing board.

There are no related organizations to be reported.

BASIS OF PRESENTATION

The Township follows GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. GASB Statement No. 34 adds the following components to the financial statements:

Management's Discussion and Analysis

A narrative introduction and analytical overview of the government's financial activities. This analysis is similar to analysis the private sector provides in their annual reports.

BATES TOWNSHIP

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

Government-wide financial statements

These include financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Annual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter. The government-wide statements include the Statement of Net Assets and the Statement of Program Activities.

Statement of Net Assets

The Statement of Net Assets displays the financial position of the primary government (government and business-type activities).

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

Statement of Net Assets (Continued)

Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expenses - the cost of "using up" capital assets - in the Statement of Activities. The net assets of a government are broken down into three categories - 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Program Activities

The statement of program activities reports expenses and revenues in a format that focuses on the cost of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

Budgetary comparison schedules

Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. The Township and many other governments revise their original budgets over the course of the year for a variety of reasons.

As required by accounting principles generally accepted in the United States of America, these financial statements present the primary government and its component units, entities for which the government is considered to be financially accountable.

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The basic financial statements include both government-wide (based on the Township as a whole) and fund financial statements. The reporting model focus is on both the Township as a whole and the fund financial statements, including the major individual funds of governmental and business-type categories, as well as the fiduciary funds (by category).

Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)

Both governmental-wide and fund financial statements presentations provide valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the financial information. The Township generally uses restricted assets first for expenses incurred for which both restricted and unrestricted assets are available. The Township may defer the use of restricted assets based on a review of the specific transaction.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) that are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.).

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)

The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions.

The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operation or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)

The Township does not allocate indirect expenses. The operating grants and contributions column includes operating-specific and discretionary (either operating or capital) grants while the capital grants and contributions column reflects capital-specific grants.

In the fund financial statements, financial transactions and accounts of the Township are organized in the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL
STATEMENTS (Continued)

The fund statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the governmental activities column of the government-wide financial statements.

The Township's fiduciary funds are presented in the fund financial statements by type (pension, private purpose and agency).

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

The following is a brief description of the specific funds used by the Township.

GOVERNMENTAL FUNDS

These funds are those through which most governmental functions typically are financed.

BATES TOWNSHIP

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

GOVERNMENTAL FUNDS (Continued)

The acquisition, use, and balances of the Township's expendable financial resources and the related current liabilities, except those accounted for in the Proprietary Fund, are accounted for through the Governmental Funds.

These funds are as follows:

General Fund

This fund is used for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit.

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

GOVERNMENTAL FUNDS

General Fund (Continued)

Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenues. For reporting purposes, the General Fund is always considered to be a major fund.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action. The Township's Liquor Law Enforcement and Road Repair Funds are Special Revenue Funds.

The Road Repair Fund is considered a major fund for reporting purposes. The Liquor Law Enforcement Fund is a non-major fund.

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

PROPRIETARY FUNDS

Enterprise Funds

These funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises----where the intent of the governing body is that the costs (expenses including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purpose.

The Township's Water Fund and Sewer Fund are Enterprise Funds.

BATES TOWNSHIP

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

FIDUCIARY FUNDS

Trust and Agency Funds are used to account for assets held by the Township in a trustee capacity for individuals, private organizations, other governmental units, and/or other funds. The Township's *Current Tax Collection Fund* is a Fiduciary Fund.

Accounting for Expendable Trust funds parallels accounting for governmental funds (modified accrual basis/approximate flow of current financial resources).

MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus.

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

With this measurement focus, only current liabilities generally are included on the balance sheet in the funds statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of the governmental funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The government-wide statement of net assets and statement of activities, all proprietary funds, and private purpose trust funds and pension trust funds are accounted for on a flow of economic resources measurement focus.

With this measurement focus, all assets and all liabilities associated with the operation of these activities are either included on the statement of net assets or on the statement of fiduciary net assets.

BATES TOWNSHIP

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The statement of net assets, statement of activities, and financial statements of the Proprietary Fund and the Fiduciary Fund are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

The fund financial statements of the General and Special Revenue funds are maintained and reported on the modified accrual basis of accounting using the current financial resources measurement focus.

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

Under this method of accounting, revenues are recognized in the period in which they become measurable and available. With respect to real and personal property tax revenue and other local taxes, the term "available" is limited to collection within sixty days of the fiscal year-end. Levies made prior to the fiscal year-end but which are not available are deferred. Interest income is recorded as earned. Federal and State reimbursement-type grants revenue is considered to be measurable and available as revenue when related eligible expenditures are incurred.

Expenditures, other than accrued interest on long-term debt, are recorded when the fund liability is incurred.

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

MEASUREMENT FOCUS (Continued)

The local government unit applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is employed for accountability purposes only.

It is the Township's policy to honor all unfilled contracts/orders at year-end, but the authority to complete these transactions is provided by the new year's budget appropriations, as unexpended appropriations of the current year lapse at year-end.

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

CASH AND CASH EQUIVALENTS

The Township pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements.

The Township classifies cash on hand, cash on deposit (including certificates of deposit), and highly liquid investments with an original maturity of ninety days or less when purchased as cash in its financial statements.

INVENTORIES

Inventories of supplies are expended as received.

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

RECEIVABLES

Accounts which will be collected within sixty days of year-end are accrued as accounts receivable in the General and Special Revenue Funds. User charges for the Proprietary Fund are recorded as receivable when billed. On an annual basis the charges are reviewed for collectibility. Those deemed uncollectible are assigned to the tax roll.

INTEREST RECEIVABLE

Interest on certificates of deposit is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

DUE TO/FROM OTHER FUNDS

Transactions between funds that had not been paid or received as of fiscal year end have been recorded as inter-fund accounts receivable and payable in the financial statements.

BATES TOWNSHIP

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

DUE TO/FROM OTHER FUNDS (Continued)

These interfund receivables and payables do not represent Board-approved loans between funds.

DEFERRED REVENUE

Deferred revenue represents amounts under the modified accrual basis of accounting for which asset recognition criteria have been met but for which revenue recognition criteria have not been met, whereby such amounts are measurable but not considered currently available resources.

FUND EQUITY

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances represent the amount that has been legally identified for specific purposes.

BATES TOWNSHIP

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

FUND EQUITY (Continued)

Designated fund balances represent amounts earmarked by the Township for future expenditures.

Unreserved retained earnings represent net assets available for future operations or distribution. Reserved retained earnings represent net assets that have been legally identified for specific purposes. Designated retained earnings represent amounts earmarked by the Township for future expenditures.

BUDGETS AND BUDGETARY ACCOUNTING

The Township follows the State of Michigan Uniform Budgeting and Accounting Act for budgeting procedures. Budgets are adopted on a basis consistent with generally accepted accounting principles.

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

BUDGETS AND BUDGETARY ACCOUNTING
(Continued)

Annual appropriated budgets are adopted for the general and special revenue funds. Unexpended appropriations lapse at fiscal year-end.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

1. Prior to March 31 of the preceding fiscal year, the Township prepares a budget for the next fiscal year beginning April 01. The operating budget includes proposed expenditures and the means of financing them.

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

BUDGETS AND BUDGETARY ACCOUNTING
(Continued)

2. A meeting of the Township Board is then called for the purpose of adopting the proposed budget after sufficient public notice of the meeting has been given.

3. Prior to April 01, the budget is legally enacted through passage of a resolution by the members of the Township Board.

Once the budget is approved, it can be amended at the Function and Fund level only by approval of a majority of the members of the Township Board. Amendments are presented to the Board at their regular meetings. Each amendment must have Board approval.

BATES TOWNSHIP

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

PROPERTY TAX

Property taxes are levied on December 31 and payable in two installments, July 01 and December 01. Property taxes are declared delinquent the following March 01, when they become a lien. The Township bills and collects its own property taxes and also collects taxes for the school districts, county, and library.

Collections for the schools, county, and library are accounted for in the Trust and Agency Fund. Township property tax revenues are recognized when levied to the extent they are receivable. The County of Iron purchases from the Township the delinquent real property taxes outstanding as of March 01 of each year.

The 2004 taxable valuation of the Township totaled \$ 30,828,815, on which ad valorem taxes levied consisted of 3.15 mills for general operating purposes. An additional 1 mill was levied for roads.

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

NON-MONETARY TRANSACTIONS

The Single Audit Act of 1984, as amended, and OMB Circular A-133 defines federal financial assistance to include both monetary and non-monetary forms of assistance provided by or passed down from a federal agency, such as grants, contracts, loans, loan guarantees, property, etc.

CAPITAL ASSETS

Capital outlays are recorded as expenditures of the General, Special Revenue, and Capital Projects Funds (when applicable) and as assets in the governmental-wide statements to the extent the Township's capitalization threshold of \$ 500 is met.

BATES TOWNSHIP

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

CAPITAL ASSETS (Continued)

Depreciation is recorded on general fixed assets on a government-wide basis using the straight-line method and the following estimated useful lives:

Buildings.....	20 - 30 years
Infrastructure.....	10 - 65 years
Furniture and Other Equipment.....	5 - 20 years

To the extent the Township's capitalization threshold of \$ 500 is met, capital outlays of the Proprietary Funds are recorded as fixed assets and depreciated over their estimated useful lives on a straight-line basis on both the funds basis and the governmental-wide basis using the straight-line method and the following estimated useful lives:

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

CAPITAL ASSETS (Continued)

Land Improvements..... 20 years

Equipment..... 5 - 20 years

All fixed assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated.

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenses that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

BATES TOWNSHIP

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (Continued)

COMPENSATED ABSENCES

The Township has no employees eligible to accrue vacation or sick pay.

POST-EMPLOYMENT BENEFITS

The Township offers no post-employment benefits.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE B - INTERFUND ACTIVITIES (CONTINUED)

INTERFUND RECEIVABLES AND PAYABLES

Inter-fund receivables and payables do not represent inter-fund borrowings; instead, they represent actual amounts which are pending between funds at year-end due to the timing of cash flows. Generally, these amounts clear shortly after year-end when resources become available.

The amounts of the inter-fund receivables and payables as of March 31, 2005 were as follows:

<u>Fund</u>	<u>Inter-fund Receivable</u>	<u>Inter-fund Payable</u>
General	\$ 78397	\$ 21427
Liquor Law Enforcement	0	211
Water	0	44829
Sewer	0	28850
Trust and Agency	0	4507
Road Repair	21427	0
Totals	\$ <u>99824</u>	\$ <u>99824</u>

BATES TOWNSHIP

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

NOTE B - INTERFUND ACTIVITIES (CONTINUED)

OPERATING TRANSFERS

Inter-fund transfers are the result of legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended.

During the current fiscal year ended March 31, 2005, the Township had no transfers.

OTHER FINANCING SOURCES (USES)

The transfers of cash between the various Township funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

BATES TOWNSHIP

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS

REVENUE BONDS - WATER

The funding requirements of Rural Economic and Community Development stipulate that separate accounts be established and funded as follows:

RECEIVING FUND

All gross income and revenue are first deposited in the Water Receiving Fund account. Monies so deposited shall be expended and used as required to properly fund the other accounts.

OPERATION AND MAINTENANCE

A sufficient portion of income and revenue must be deposited to pay reasonable and necessary current expenses of administration, operating, and maintaining the system.

BATES TOWNSHIP

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS

REVENUE BONDS - WATER (Continued)

BOND AND INTEREST REDEMPTION

Each quarter, deposits must be made to this account for payment of principle and interest on the Bonds in a sum equal to or not less than one fourth of the annual interest and principal on the Bonds.

On March 31, 2005, the Township is required to have \$ 12,500 on deposit in the Bond and Interest Redemption account. The actual balance on March 31, 2005 is \$ 8,343.

As of March 31, 2005, the Township was not in compliance with the funding requirements for the Bond and Interest Redemption account.

BOND RESERVE

A minimum of \$ 2,325, per quarter must be deposited in this account until there is accumulated the sum of \$ 93,000.

BATES TOWNSHIP

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

NOTE C- CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

REVENUE BONDS - WATER (Continued)

BOND RESERVE (Continued)

The monies in this account are to be used solely for the payment and interest on said bonds as to which there would otherwise be default. On March 31, 2005, the total in the Bond Reserve account was \$ 91,485, therefore meeting the funding requirements.

REPLACEMENT FUND

Revenues are to be transferred each quarter to the Replacement Fund in such amount as determined by resolution of the Township Board to be used and disbursed only for the purpose of paying the cost of repairing any damage to the System, or repairing or replacing obsolete, deteriorating, deteriorated or worn out portions of the System, and, when necessary, for the purpose of making payments of principal and interest on the Bonds. On March 31, 2005, the Replacement Fund has a cash balance of \$ 17,667, therefore, the Township has met the funding requirements.

BATES TOWNSHIP

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

NOTE C- CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

REVENUE BONDS - WATER (Continued)

IMPROVEMENT FUND

Revenues are to be transferred each quarter to the Improvement Fund in such amount as determined by resolution of the Township Board. Money in the Improvement Fund shall be used and disbursed only for the purpose of paying the cost of making improvements to the system, and when necessary, for the purpose of making payments of principal and interest on the bonds.

On March 31, 2005, the Improvement fund has a cash balance of \$ 17,667. Therefore, the Township has met the funding requirements.

REVENUE BONDS - SEWER

The funding requirements of Farmer's Home Administration stipulate that separate accounts be established and funded as follows:

BATES TOWNSHIP

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

NOTE C- CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

REVENUE BONDS - SEWER (Continued)
RECEIVING FUND

All gross income and revenue are first to be deposited in the Sanitary Sewage System Receiving Fund Account. Monies so deposited shall be expended and used as required to properly fund the other accounts.

OPERATION AND MAINTENANCE ACCOUNTS

A sufficient portion of income and revenue must be deposited to pay the reasonable and necessary current expenses of administration, operating, and maintaining the System.

BOND AND INTEREST REDEMPTION

Each quarter, deposits must be made to this account for payment of principal and interest on the bonds in a sum equal to or not less than one fourth of the annual interest and principle payment of FmHA bonds.

BATES TOWNSHIP

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

NOTE C- CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

REVENUE BONDS - SEWER (Continued)

BOND AND INTEREST REDEMPTION (Continued)
On March 31, 2005, the Township is required to have \$ 5,425 on deposit in the Bond and Interest Redemption account. The actual balance on March 31, 2005 was \$ 42,923, therefore, the Township has met the funding requirements.

BOND RESERVE

A minimum of \$ 500 per quarter must be deposited in this account until there is accumulated the sum of \$ 33,000.

The monies in this account are to be used solely for the payment of the principal and interest on said bonds as to which there would otherwise be default.

BATES TOWNSHIP

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

NOTE C- CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

REVENUE BONDS - SEWER (Continued)

BOND RESERVE (Continued)

On March 31, 2005, the total in the Bond Reserve account was \$ 33,000, therefore, the Township has met the funding requirements.

GENERAL PURPOSE ACCOUNT

The balance of income and revenue after the required transfers to the other accounts, is to be deposited to a General Purpose Account to be used for paying the cost of repairing (or replacing) any damage to the System and for extending or improving the System. Total deposits to the General Purpose Account need not exceed the sum of \$ 15,000.

On March 31, 2005, the General Purpose Account had a balance of \$ 49,881, therefore, the Township has met the funding requirements.

BATES TOWNSHIP

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

NOTE C- CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

PRIMARY GOVERNMENT

On March 31, 2005, the carrying value of the Township's deposits (Primary Government) was \$ 478,319 and is comprised of cash and deposits reflected in the following funds:

Governmental Funds	
General Fund	\$ 138570
Liquor Law Enforcement Fund	<u>821</u>
Total Governmental Funds	139391
Enterprise Funds	
Water Fund	143706
Sewer Fund	<u>167562</u>
Total Enterprise Funds	311268
Fiduciary Funds	
Tax Collection Fund	<u>27660</u>
Total Fiduciary Funds	27660
TOTAL PRIMARY GOVERNMENT	\$ 478319

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the local unit's cash deposits classifies cash according to three levels of risk.

The three levels of risk are as follows:

Category 1

Deposits which are insured or collateralized with securities held by the Township or by its agent in the Township's name.

Category 2

Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Township's name.

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

Category 3

Deposits which are not
collateralized or
insured.

Based on these levels of risk, the
Township's cash deposits (Primary
Government) are classified as follows:

SCHEDULE OF CASH AND DEPOSITS

PRIMARY GOVERNMENT

	<u>Category</u> <u>1</u>	<u>Category</u> <u>2</u>	<u>Category</u> <u>3</u>	<u>Totals</u>
Cash and Deposits	\$ 323344	\$ -0-	\$ 154975	\$ 478319

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

INVESTMENTS

The Township's investments are categorized below to give an indication of the level of risk assumed at year-end. **Category 1** includes investments that are insured or registered or for which the securities are held by the Township or its agent in the Township's name. **Category 2** includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's safekeeping department or agent in the Township's name. **Category 3** includes uninsured and registered investments for which the securities are held by the broker or dealer, or by its safekeeping department or agent, but not in the Township's name.

There are no investments for the Township, as reflected below:

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

INVESTMENTS (Continued)

<u>Investment Type</u>	<u>Category</u> <u>1</u>	<u>Category</u> <u>2</u>	<u>Category</u> <u>3</u>	<u>Carrying</u> <u>Value</u>	<u>Market</u> <u>Value</u>
	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Total Investments	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-

STATUTORY AUTHORITY

Act 196, PA 1997, authorizes the Township to deposit and invest in:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

STATUTORY AUTHORITY (Continued)

2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution eligible to be a depository of funds belonging to the State of Michigan under a law or rule of this state or the United States.
3. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
4. Repurchase agreements consisting of instruments issued by the United States or an agency or instrumentality of the United States.

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE C - CASH, DEPOSITS, AND INVESTMENTS (CONTINUED)

STATUTORY AUTHORITY (Continued)

5. Bankers acceptances of United States banks.
6. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
7. Mutual funds registered under the Investment Act of 1950 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

The Township has adopted an investment policy, allowing for all types of deposits and investments listed above. The Township's deposits and investments are in compliance with its investment policy.

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE D - PENSION PLAN

DESCRIPTION OF PLAN AND PLAN ASSETS

Bates Township is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty-connected death and postretirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the final average compensation (FAC) with a maximum benefit of 80 percent of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2003.

MERS was organized pursuant to Section 12a of Act#156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission.

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE D - PENSION PLAN (CONTINUED)

DESCRIPTION OF PLAN AND PLAN ASSETS
(Continued)

MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system.

That report may be obtained by writing to:

MERS
447 North Canal Street
Lansing, Michigan 48917-9755

FUNDING POLICY

The obligation to contribute to and maintain the system for these employees was established by personnel policy, which does not require employees to contribute to the plan. The Township is required to contribute at an actuarially determined rate; the current rate is 32.66 percent at December 31, 2003.

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE D - PENSION PLAN (CONTINUED)

ANNUAL PENSION PLAN

During the fiscal year ended March 31, 2005, the Township's contributions totaling \$12,242 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2003.

The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years.

The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit.

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE D - PENSION PLAN (CONTINUED)

ANNUAL PENSION PLAN (Continued)

Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on age-related scale to reflect merit, longevity, and promotional salary increases.

THREE YEAR TREND INFORMATION FOR GASB STATEMENT NO. 27

<u>Year Ended December 31</u>	<u>Annual Pension Cost</u>	<u>Percentage of AP Contribution</u>
2001	\$ 10824	100%
2002	10860	100%
2003	8712*	100%

* Based on Valuation Payroll. Actual contributions will be based on actual reported monthly pays, and will be different from the above amounts.

BATES TOWNSHIP

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

NOTE D - PENSION PLAN (CONTINUED)

REQUIRED SUPPLEMENTARY INFORMATION FOR GASB STATEMENT NO. 25

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/01	\$ 70305	\$ 183287	\$ 112982	38%	\$ 52792	214%
12/31/02	85999	197022	111023	44%	53329	208%
12/31/03	106662	231247	124585	46%	26664	467%

GASB 5 AND GASB 27 INFORMATION

The following information has been prepared to provide the information necessary to comply with GASB Statements 25 and 27. Statement 25 is effective for fiscal years beginning after June 15, 1996 and Statement 27 is effective for fiscal years beginning after June 15, 1998.

BATES TOWNSHIP

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

NOTE D - PENSION PLAN (CONTINUED)

GASB 5 AND GASB 27 INFORMATION (Continued)

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2003 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

GASB 25 INFORMATION (as of 12/31/03)

Actuarial Accrued Liability	
Retirees and beneficiaries currently receiving benefits	\$ 123,992
Terminated employees not yet receiving benefits	0
Actuarial Accrued Liability	
Current employees -	\$
Accumulated employee contributions including allocated investment income	0
Employer Financed	<u>107,255</u>
Total Actuarial Accrued Liability	231,247
Net Assets Available for Benefits at Actuarial Value	\$ <u>106,662</u>
(Market Value is \$ 97,394)	
Unfunded (Overfunded) Actuarial Accrued Liability	\$ 124,585

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE D - PENSION PLAN (CONTINUED)

GASB 27 INFORMATION (as of 12/31/03)

Fiscal Year Beginning	April 1, 2005
Annual Required Contribution (ARC)	\$ 8,712
Amortization Factor Used	0.053632

NOTE E - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

BUDGET VIOLATIONS

P.A. 621 of 1978, SECTION 18 (1), as amended, provides a local unit shall not incur expenditures in excess of the amounts appropriated.

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE E - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS
(CONTINUED)

BUDGET VIOLATIONS (Continued)

The Township's actual expenditures and budgeted expenditures for the funds budgeted have been shown on an activity basis.

The approved budgets of **Bates Township** were adopted at the activity level. The budget is prepared on the modified accrual basis of accounting, which is the same basis as financial statements.

The total actual 2004-2005 expenditures for the following activities (cost centers) exceeded the amended budget allocations by a total of \$ 30,080 contrary to the provisions of Section 17 of Public Act 621 of 1978, the "Uniform Budgeting and Accounting Act".

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE E - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS
(CONTINUED)

BUDGET VIOLATIONS (Continued)

<u>ACTIVITY (COST CENTER)</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>OVER EXPENDITURES</u>
<u>General Fund</u>			
Township Board	\$ 15676	\$ 11691	\$ 3985
Cemetery	7415	5986	1429
Township Property	30525	25500	5025
Department of			
Public Works	53420	42588	10832
Recreation and			
Cultural	30542	28726	1816
Capital Outlay	6993	0	6993

NOTE F - ACCUMULATED FUND DEFICITS

At March 31, 2005, the Township had no fund balance/retained earnings deficit in any fund.

BATES TOWNSHIP

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

NOTE G - RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Township. Settled claims have not exceeded this commercial coverage in the past three fiscal years.

NOTE H - CAPITAL ASSETS

The following is a summary of the changes in capital assets for the fiscal year ended March 31, 2005:

BATES TOWNSHIP

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

NOTE H - CAPITAL ASSETS (CONTINUED)

	Balance March 31, 2004	<u>Increases</u>	<u>Decreases</u>	Balance March 31, 2005
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated	\$	\$	\$	\$
Land and Land Improvements	16218	0	0	16218
Total Capital Assets Not Being Depreciated	\$ 16218	\$ 0	\$ 0	\$ 16218
Other Capital Assets				
Buildings	139621	6375	0	145996
Furniture & Other Equip.	116479	618	0	117097
Total Other Cap. Assets	\$ 256100	\$ 6993	\$ 0	\$ 263093
Less Accumulated Depreciation for:				
Buildings	(68329)	(1880)	0	(70209)
Furniture & Other Equip.	(90648)	(4005)	0	(94653)
Total Accum. Depreciation	(158977)	(5885)	0	(164862)
Other Capital Assets, Net	97123	1108	0	98231
TOTAL GOVERNMENTAL ACTIVITIES	\$ 113341	\$ 1108	\$ 0	\$ 114449

Depreciation was charged to governmental functions as unallocated.

BATES TOWNSHIP

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

NOTE H - CAPITAL ASSETS (CONTINUED)

BUSINESS-TYPE ACTIVITIES

The following is a summary of changes in capital assets for business-type activities for the fiscal year ended March 31, 2005:

<u>BUSINESS-TYPE ACTIVITIES</u>	Balance March 31, 2004	<u>Increases</u>	<u>Decreases</u>	Balance March 31, 2005
<u>Capital Assets Not Being Depreciated:</u>				
Land	\$ 0	\$ 0	\$ 0	\$ 0
<u>Other Capital Assets:</u>				
Machinery and Equipment	19759	12616	0	32375
Water Mains/Lines	3798360	44887	0	3843247
Sewer Mains/Lines	2695043	0	0	2695043
Total Capital Assets	\$ 6513162	\$ 57503	\$ 0	\$ 6570665

(Continued on page 99)

BATES TOWNSHIP

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

NOTE H - CAPITAL ASSETS (CONTINUED)

BUSINESS-TYPE ACTIVITIES (Continued)

(Continued from previous page)

	Balance March 31, 2004	<u>Increases</u>	<u>Decreases</u>	Balance March 31, 2005
Less Accumulated Depreciation for:				
Machinery and Equipment	\$ (5031)	\$ (3609)	\$ 0	\$ (8640)
Water Mains/Lines	(918437)	(147828)	0	(1066265)
Sewer Mains/Lines	<u>(1578152)</u>	<u>(68852)</u>	<u>0</u>	<u>(1647004)</u>
Total Accumulated Depreciation	<u>(2501620)</u>	<u>(220289)</u>	<u>0</u>	<u>(2721909)</u>
TOTAL BUSINESS-TYPE ACTIVITIES	\$ <u>4011542</u>	\$ <u>(162786)</u>	\$ <u>0</u>	\$ <u>3848756</u>

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE I - LONG-TERM DEBT

The following is a summary of changes of the primary government's long-term debt obligation on March 31, 2005.

GOVERNMENTAL ACTIVITIES

	APRIL 01, 2004	Increases	Decreases	MARCH 31, 2005
<u>BUSINESS-TYPE ACTIVITIES</u>				
Water Supply System Project	\$ 1325000	\$ -0-	\$ 20000	\$ 1305000
Sanitary Sewage System Revenue Bonds	<u>289000</u>	<u>-0-</u>	<u>18000</u>	<u>271000</u>
TOTALS	\$ <u>1614000</u>	\$ <u>-0-</u>	\$ <u>38000</u>	\$ <u>1576000</u>

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE I - LONG-TERM DEBT (CONTINUED)

WATER SUPPLY SYSTEM PROJECT

The Township received funding through the Rural Economic and Community Development Services, U.S. Department of Agriculture for improvements to its water supply system. The cost of the Project was \$ 3,260,000, and the period of usefulness of the Project is estimated to be not less than forty (40) years.

To pay part of the cost of acquiring and constructing the Project, the Township borrowed the sum of One Million Four Hundred Sixty Seven Thousand Dollars (\$ 1,467,000) and revenue bonds have been issued pursuant to the provisions of Act 94. The balance of the cost of the Project is financed primarily by grant funds, approved in the amount of \$ 1,793,000.

BATES TOWNSHIP

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

NOTE I - LONG-TERM DEBT (CONTINUED)

WATER SUPPLY SYSTEM PROJECT (Continued)

On 9/15/94, the Township issued a 1994 Water Supply System Revenue Bond (General Obligation Limited Tax) as one single fully registered Bond numbered R-1 of the denomination of \$ 1,467,000 payable on September 1st of each year. Interest is payable semiannually on September 1st and March 1st of each year at 5.25% per annum.

The requirements to amortize all debt outstanding as of March 31, 2005, including interest payments are as follows:

	<u>March 1 Interest</u>	<u>September 1</u>		<u>Total</u>
		<u>Principal</u>	<u>Interest</u>	
2005	\$	\$ 25000	\$ 34256	\$ 59256
2006	33600	30000	33600	97200
2007	32813	30000	32813	95626
2008	32025	30000	32025	94050
2009	31238	30000	31238	92476

(Continued on page 103)

BATES TOWNSHIP

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

NOTE I - LONG-TERM DEBT (CONTINUED)

WATER SUPPLY SYSTEM PROJECT (Continued)

(Continued from previous page)

	<u>March 1 Interest</u>	<u>September 1</u>		<u>Total</u>
		<u>Principal</u>	<u>Interest</u>	
2010	30450	35000	30450	95900
2011	29531	35000	29531	94062
2012	28613	35000	28613	92226
2013	27694	35000	27694	90388
2014	26775	35000	26775	88550
2015	25856	35000	25856	86712
2016-2020	114190	205000	114190	433380
2021-2025	85838	235000	85838	406676
2026-2030	53420	265000	53420	371840
2031-2034	<u>16274</u>	<u>245000</u>	<u>16274</u>	<u>277548</u>
Totals	\$ <u>568317</u>	\$ <u>1305000</u>	\$ <u>602573</u>	\$ <u>2475890</u>

Subsequent to the completion of the Water Supply System project, the Township undertook the construction of an elevated cylinder tank, necessitated by unacceptably low water pressure conditions.

BATES TOWNSHIP

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

NOTE I- LONG-TERM DEBT (CONTINUED)

WATER SUPPLY SYSTEM PROJECT (Continued)

The project was funded by a 75% federal grant with the local match funded by U.P. Engineers & Architects, Inc. and their insurance company. The project was completed at no cost to the Township.

REVENUE BONDS - SEWER

\$538,000 of sanitary sewage system revenue bonds were issued in previous years for the purpose of partial funding of the **Bates Township's** sanitary sewer system. The bonds are payable solely from the net income and revenues derived from the operation of the system. Interest (5%) and principal are payable as follows:

<u>Year</u>	<u>January 1</u>		<u>July 1</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Interest</u>	
2005	\$	\$	\$ 6775	\$ 6775
2006	19000	6775	6300	32075

(Continued on page 105)

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE I - LONG-TERM DEBT (CONTINUED)

REVENUE BONDS - SEWER (Continued)

(Continued from previous page)

<u>Year</u>	<u>January 1</u>		<u>July 1</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Interest</u>	
2007	\$ 20000	\$ 6300	\$ 5800	\$ 32100
2008	21000	5800	5275	32075
2009	22000	5275	4725	32000
2010	22000	4725	4175	30900
2011	23000	4175	3600	30775
2012-2017	<u>144000</u>	<u>12600</u>	<u>9000</u>	<u>165600</u>
	\$ <u>271000</u>	\$ <u>45650</u>	\$ <u>45650</u>	\$ <u>362300</u>

BATES TOWNSHIP

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

NOTE J - SEGMENT INFORMATION - Enterprise Funds

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Enterprise Funds</u>
Operating Revenues	\$ 188146	\$ 86667	\$ 274813
Depreciation and Amortization Expense	150355	69935	220290
Operating Income or (Loss)			
Operating Grants, Entitlements, and Shared Revenues	0	0	0
Operating Transfers:			
In	0	0	0
(Out)	0	0	0
Tax Revenues	0	0	0
Net Income or Loss	0	0	0
	(125186)	(40104)	(165290)

(Continued on page 107)

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE J - SEGMENT INFORMATION - Enterprise Funds (CONTINUED)

(Continued from previous page)

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Enterprise Funds</u>
Current Capital:	\$	\$	\$
Contributions	0	0	0
Transfers	0	0	0
Property, Plant, and Equipment			
Additions	57504	0	57504
Deletions	0	0	0
Net Working Capital	93099	126837	219936
Total Assets	2984646	1225735	4210381
Bonds and Other Long-Term			
Liabilities			
Payable from Operating Revenues	1280000	252000	1532000
Payable from Other Sources	0	0	0
Total Equity	\$ 1608175	\$ 922516	\$ 2530691

BATES TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

NOTE K - RELATED PARTY TRANSACTIONS

Related parties exist when there is a relationship that offers the potential for transactions at less than arm's length, favorable treatment, or the ability to influence the outcome of events differently from that which might result in the absence of that relationship.

Financial statements must include disclosure of material related party transactions, other than compensation arrangements, expense allowances and similar items in the ordinary course of business. However, disclosure of transactions that are eliminated in the preparation of combined financial statements is not required in those statements.

On this basis, there were no related party transactions reported in the financial statements.

BATES TOWNSHIP

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

NOTE L - SUBSEQUENT EVENTS

Subsequent events have a material effect on the financial statements which requires adjustment or disclosure.

They relate to events that provide additional evidence with respect to conditions that existed at the date of the balance sheet and events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date.

At fiscal year ended March 31, 2005, there were no subsequent events that would have a significant affect on the Township's operations.

NOTE M - COMMITMENTS AND CONTINGENCIES

There are no commitments or contingencies to be reported as of March 31, 2005.

REQUIRED SUPPLEMENTAL INFORMATION

BATES TOWNSHIP

**REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

YEAR ENDED MARCH 31, 2005

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>
<u>Revenue</u>			
General property taxes	\$ 97000	\$ 97000	\$ 97105
Other local taxes/administration fees	18900	18900	15009
Licenses, permits, and fees	500	500	925
Sale of property	100	100	3000
Use of money and property	4000	4000	3079
Charges for services-tax collection	12000	12000	12800
Cemetery revenues	1500	1500	1300
Miscellaneous	3800	3800	5795
Intergovernmental	80000	80000	78795
	<hr/>	<hr/>	<hr/>
Total Revenue	217800	217800	217808
<u>Expenditures</u>			
General government	77000	77967	79396
Legislative	12700	11691	15676
Township property	36800	25500	30525
Department of Public Works	54200	42588	53420
Public Safety	19000	19000	19000
Recreation and Culture	18000	28726	30542
Capital outlay	100	0	6993
	<hr/>	<hr/>	<hr/>
Total Expenditures	217800	205472	235552
<u>Other Financing Sources (Uses)</u>			
Operating transfers in	0	0	0
Operating transfers out	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	0	0	0
Net Change in Fund Balance	0	12328	-17744
Fund Balance -Beginning of year	<hr/> 223090	<hr/> 223090	<hr/> 223090
Fund Balance - End of year	<hr/> \$ 223090	<hr/> \$ 235418	<hr/> \$ 205346

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE - ROAD REPAIR FUND

YEAR ENDED MARCH 31, 2005

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>
<u>Revenue</u>			
Property taxes	\$ 30828	\$ 30828	\$ 30827
Intergovernmental	<u>0</u>	<u>0</u>	<u>6664</u>
Total Revenue	30828	30828	37491
 <u>Expenditures</u>			
Public Works	30828	30828	16064
Total Expenditures	<u>30828</u>	<u>30828</u>	<u>16064</u>
Excess of Revenues Over (Under) Expenditures	0	0	21427
<u>Other Financing Sources (Uses)</u>			
Operating transfers in	0	0	0
Net Change in Fund Balance	0	0	21427
Fund Balance -Beginning of year	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balance - End of year	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 21427</u></u>

The notes to the financial statements are an integral part of this report.

OTHER SUPPLEMENTAL INFORMATION

BATES TOWNSHIP

OTHER SUPPLEMENTAL INFORMATION
BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUND

MARCH 31, 2005

	<u>Liquor Law Enforcement Fund</u>
<u>ASSETS</u>	
Cash and Investments (Note C)	<u>\$ 821</u>
TOTAL ASSETS	\$ 821
<u>LIABILITIES</u>	
Due to Other Funds	<u>211</u>
TOTAL LIABILITIES	211
<u>FUND BALANCE</u>	
Reserved for Liquor Law Enforcement	<u>610</u>
TOTAL FUND BALANCE	\$ 610

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

OTHER SUPPLEMENTAL INFORMATION
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUND

MARCH 31, 2005

	Liquor Law Enforcement Fund
<u>Revenue</u>	
Intergovernmental	\$ 385
Total Revenue	\$ 385
<u>Expenditures</u>	
Current:	
Public safety	414
Total Expenditures	414
Excess (Deficiency) of Revenues Over Expenditures	-29
Fund Balance - Beginning of Year	639
Fund Balance - End of Year	\$ 610

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

**COMBINING BALANCE SHEET
ALL SPECIAL REVENUE FUNDS**

MARCH 31, 2005

	<u>Liquor Law Enforcement Fund</u>	<u>Road Repair</u>	<u>Totals</u>
<u>ASSETS</u>			
Cash	\$ 821	\$ 0	\$ 821
Due From Other Funds	<u>0</u>	<u>21427</u>	<u>21427</u>
TOTAL ASSETS	<u><u>\$ 821</u></u>	<u><u>\$ 21427</u></u>	<u><u>\$ 22248</u></u>
<u>LIABILITIES AND FUND EQUITY</u>			
<u>LIABILITIES</u>			
Due To Other Funds	<u>211</u>	<u>0</u>	<u>211</u>
TOTAL LIABILITIES	<u>211</u>	<u>0</u>	<u>211</u>
<u>FUND EQUITY</u>			
Fund Balance	<u>610</u>	<u>21427</u>	<u>22037</u>
TOTAL FUND EQUITY	<u>610</u>	<u>21427</u>	<u>22037</u>
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 821</u></u>	<u><u>\$ 21427</u></u>	<u><u>\$ 22248</u></u>

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY
ALL SPECIAL REVENUE FUNDS**

FISCAL YEAR ENDED MARCH 31, 2005

	<u>Liquor Law Enforcement Fund</u>	<u>Road Repair</u>	<u>Totals</u>
<u>REVENUES</u>			
Property Taxes	\$ 0	\$ 30827	\$ 30827
Grants	385	6664	7049
TOTAL REVENUES	385	37491	37876
<u>EXPENDITURES</u>			
Personal Services	414	0	414
Contracted Services	0	13543	13543
Maintenance	0	2521	2521
TOTAL EXPENDITURES	414	16064	16478
Excess of Revenues Over (Under) Expenditures	(29)	21427	21398
FUND BALANCE, APRIL 1	639	0	639
FUND BALANCE, MARCH 31	\$ 610	\$ 21427	\$ 22037

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

COMBINING BALANCE SHEET
ALL PROPRIETARY FUND TYPES

MARCH 31, 2005

	Water Supply System Fund	Sewer System Fund	Totals
<u>ASSETS</u>			
Cash and Deposits:			
Restricted	\$ 135838	\$ 134087	\$ 269925
Unrestricted	7868	33475	41343
Accounts Receivable	40864	9494	50358
Property, Plant and Equipment	3870211	2700455	6570666
Accumulated Depreciation	(1070135)	(1651776)	(2721911)
TOTAL ASSETS	<u>\$ 2984646</u>	<u>\$ 1225735</u>	<u>\$ 4210381</u>
<u>LIABILITIES AND FUND EQUITY</u>			
<u>LIABILITIES</u>			
Accounts Payable	7742	3369	11111
Deferred Revenue	18900	0	18900
Due to Other Funds	44829	28850	73679
Bonds Payable	1305000	271000	1576000
TOTAL LIABILITIES	1376471	303219	1679690
<u>FUND EQUITY</u>			
Retained Earnings	1608175	922516	2530691
TOTAL FUND EQUITY	1608175	922516	2530691
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 2984646</u>	<u>\$ 1225735</u>	<u>\$ 4210381</u>

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
ALL PROPRIETARY FUND TYPES**

FISCAL YEAR ENDED MARCH 31, 2005

	Water Supply System Fund	Sewer System Fund	Totals
<u>OPERATING REVENUES</u>			
Charges for Services	\$ 187546	\$ 86467	\$ 274013
Miscellaneous Revenue	600	200	800
TOTAL OPERATING REVENUES	188146	86667	274813
<u>OPERATING EXPENSES</u>			
Personal Services	34215	27918	62133
Administrative and Clerical	5269	1938	7207
Fringe Benefits	2755	1353	4108
Lift Stations/Equipment	0	15180	15180
Pump House	28782	0	28782
Professional Fees/Contract Labor	9418	0	9418
Equipment, Repair and Maintenance	1264	0	1264
Water Lines and Tank	495	0	495
Water Purchases	13861	0	13861
Depreciation	150355	69935	220290
TOTAL OPERATING EXPENSES	246414	116324	362738
OPERATING PROFIT (LOSS)	(58268)	(29657)	(87925)
<u>NON-OPERATING INCOME</u>			
Interest Income	2119	3419	5538
<u>NON-OPERATING EXPENSE</u>			
Interest Expense	(69037)	(13866)	(82903)
Net Income (Loss)	(125186)	(40104)	(165290)
RETAINED EARNINGS, April 1	1733361	962620	2695981
RETAINED EARNINGS, March 31	\$ 1608175	\$ 922516	\$ 2530691

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

**BALANCE SHEET
GENERAL FUND**

MARCH 31, 2005

ASSETS

Cash and Deposits:

Restricted

\$ 0

Unrestricted

138570

Receivables:

Taxes

12092

Accounts

0

Due From Other Funds

78397

TOTAL ASSETS

\$ 229059

LIABILITIES AND FUND EQUITY

LIABILITIES

Accounts Payable

0

Accrued Interest and Taxes

2286

Due To Other Funds

21427

TOTAL LIABILITIES

23713

FUND EQUITY

Fund Balance

205346

TOTAL FUND EQUITY

205346

TOTAL LIABILITIES AND FUND EQUITY

\$ 229059

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

**STATEMENT OF REVENUES - GENERAL FUND
ACTUAL AND BUDGET**

FISCAL YEAR ENDED MARCH 31, 2005

	<u>Actual</u>	<u>Budget</u>	<u>Variance Favorable (Unfavorable)</u>
<u>TAXES</u>			
Current Tax Levy	\$ 97105	\$ 97000	\$ 105
Administrative Fees	4172	4400	(228)
Interest and Penalties On Taxes	4558	500	4058
Payment in Lieu of Taxes	2218	2000	218
Commercial Forest/Swamp Tax	4061	12000	(7939)
TOTAL TAXES	112114	115900	(3786)
<u>STATE-SHARED RECEIPTS</u>			
Sales Tax	74133	75200	(1067)
Metro Act	4662	4800	(138)
TOTAL STATE-SHARED RECEIPTS	78795	80000	(1205)
<u>CHARGES FOR SERVICES</u>			
Cemetery	1300	1500	(200)
Parks and Recreation	2775	3500	(725)
Tax Collection	12800	12000	800
TOTAL CHARGES FOR SERVICES	16875	17000	(125)
<u>INTEREST AND RENTAL</u>			
Interest	1254	2500	(1246)
Hall Rental	1825	1500	325
TOTAL INTEREST AND RENTAL	3079	4000	(921)
<u>OTHER REVENUE</u>			
Zoning Permits/Fees	925	500	425
Land Sales	3000	100	2900
Miscellaneous	3020	300	2720
TOTAL OTHER REVENUE	6945	900	6045
TOTAL REVENUES	\$ 217808	\$ 217800	\$ 8

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

STATEMENT OF EXPENDITURES
GENERAL FUND - ACTUAL AND BUDGET

FISCAL YEAR ENDED MARCH 31, 2005

	<u>ACTUAL</u>	<u>BUDGET</u>	VARIANCE FAVORABLE (UNFAVORABLE)
<u>LEGISLATIVE</u>			
<u>Township Board</u>			
Salaries	\$ 2461	\$ 0	\$ 0
Fringe Benefits	188		
Legal Services	5819		
Accounting and Audit	5588		
Printing and Publishing	470		
Professional Fees	208		
Membership Dues/Education	692		
Miscellaneous	250		
TOTAL LEGISLATIVE	15676	11691	(3985)
<u>GENERAL GOVERNMENT</u>			
<u>Supervisor</u>			
Salaries	9468		
Fringe Benefits	724		
Total Supervisor	10192	10192	0
<u>Assessor</u>			
Salaries	11012		
Fringe Benefits	842		
Supplies	639		
Professional Fees/Contract Labor	2678		
Membership Dues/Education	150		
Mileage	135		
Total Assessor	15456	15456	0
<u>Elections</u>			
Professional Fees	1561		
Supplies	683		
Mileage	20		
Miscellaneous	68		
Total Elections	\$ 2332	\$ 2332	\$ 0

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

**STATEMENT OF EXPENDITURES
GENERAL FUND - ACTUAL AND BUDGET
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

<u>GENERAL GOVERNMENT</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
<u>Clerk</u>			
Salaries	11953	\$ 0	\$ 0
Fringe Benefits	914		
Office Supplies	1169		
Supplies	12		
Computer	1670		
Membership Dues/Education	80		
Mileage	53		
Total Clerk	15851	15851	0
<u>Treasurer</u>			
Salaries	14730		
Fringe Benefits	1127		
Supplies	1960		
Computer	1231		
Tax Roll	3032		
Membership Dues/Education	155		
Mileage	68		
Total Treasurer	22303	22303	0
<u>Cemetery</u>			
Salaries	1826		
Fringe Benefits	4731		
Supplies	82		
Professional Fees	400		
Printing and Publishing	40		
Computer	336		
Total Cemetery	7415	5986	(1429)
<u>Board of Review</u>			
Contract Services	1125		
Supplies	27		
Publishing	115		
Membership Dues/Education	165		
Mileage	70		
Total Board of Review	\$ 1502	\$ 1502	\$ 0

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

**STATEMENT OF EXPENDITURES
GENERAL FUND - ACTUAL AND BUDGET
(CONTINUED)**

FISCAL YEAR ENDED MARCH 31, 2005

<u>GENERAL GOVERNMENT (CONTINUED)</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
<u>Zoning</u>			
Salaries	\$ 2400	\$ 0	\$ 0
Fringe Benefits	184		
Meetings	595		
Supplies	56		
Publishing	20		
Mileage	985		
Miscellaneous	105		
Total Zoning	4345	4345	0
TOTAL GENERAL GOVERNMENT	79396	77967	(1429)
<u>TOWNSHIP PROPERTY</u>			
<u>Township Hall</u>			
Salaries	1000		
Fringe Benefits	76		
Insurance	21265		
Utilities	4804		
Telephone	2708		
Water Purchase	672		
Total Township Hall	30525	25500	(5025)
TOTAL TOWNSHIP PROPERTY	30525	25500	(5025)
<u>DEPARTMENT OF PUBLIC WORKS</u>			
Salaries	9941		
Fringe Benefits	25750		
Supplies	2217		
Contract Services	8422		
Maintenance and Repair	3915		
Street Lighting	3175		
TOTAL DEPARTMENT OF PUBLIC WORKS	\$ 53420	\$ 42588	(10832)

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

STATEMENT OF EXPENDITURES
GENERAL FUND - ACTUAL AND BUDGET
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
<u>PUBLIC SAFETY</u>			
Fire Protection	\$ 19000	\$ 0	\$ 0
TOTAL PUBLIC SAFETY	19000	19000	0
 <u>RECREATION AND CULTURAL</u>			
Parks			
Salaries	4984		
Fringe Benefits	12907		
Supplies	980		
Contract Services	7003		
Printing/Publishing	30		
License and Permits	75		
Utilities	419		
Telephone	361		
Repairs and Maintenance	1807		
Community Promotion	1976		
TOTAL RECREATION AND CULTURAL	30542	28726	(1816)
 CAPITAL OUTLAY	6993	0	(6993)
 TOTAL EXPENDITURES	<u>\$ 235552</u>	<u>\$ 205472</u>	<u>(30080)</u>

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

BALANCE SHEET
LIQUOR LAW ENFORCEMENT FUND

MARCH 31, 2005

ASSETS

Cash

\$ 821

TOTAL ASSETS

\$ 821

LIABILITIES AND FUND EQUITY

LIABILITIES

Due To Other Funds

211

TOTAL LIABILITIES

211

FUND EQUITY

Fund Balance

610

TOTAL FUND EQUITY

610

TOTAL LIABILITIES AND FUND EQUITY

\$ 821

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY - LIQUOR LAW
ENFORCEMENT FUND
ACTUAL AND BUDGET**

FISCAL YEAR ENDED MARCH 31, 2005

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
<u>REVENUES</u>			
State Grants	<u>\$ 385</u>	<u>\$ 385</u>	<u>\$ 0</u>
TOTAL REVENUES	\$ 385	\$ 385	\$ 0
 <u>EXPENDITURES</u>			
Personal Services	<u>414</u>	<u>385</u>	<u>(29)</u>
TOTAL EXPENDITURES	414	385	(29)
 Excess of Revenues Over (Under) Expenditures	 (29)	 0	 (29)
 FUND BALANCE, APRIL 1	 <u>639</u>		
FUND BALANCE, MARCH 31	<u><u>\$ 610</u></u>		

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

BALANCE SHEET
ROAD REPAIR FUND

MARCH 31, 2005

ASSETS

Cash	\$ 0
Due From Other Funds	21427
	<hr/>
TOTAL ASSETS	\$ 21427
	<hr/>

FUND EQUITY

Fund Balance	21427
	<hr/>
TOTAL FUND EQUITY	\$ 21427
	<hr/>

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY - ROAD REPAIR FUND

ACTUAL AND BUDGET

FISCAL YEAR ENDED MARCH 31, 2005

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
<u>REVENUES</u>			
Property Taxes	30827	30828	
Grant-Schools and Roads	<u>6664</u>	<u>0</u>	(1) <u>6664</u>
TOTAL REVENUES	\$ 37491	\$ 30828	\$ 6663
<u>EXPENDITURES</u>			
Contracted Services	13543	26204	12661
Maintenance	<u>2521</u>	<u>4624</u>	<u>2103</u>
TOTAL EXPENDITURES	16064	30828	14764
Excess of Revenues Over (Under) Expenditures	21427	0	21427
FUND BALANCE, APRIL 1	<u>0</u>		
FUND BALANCE, MARCH 31	<u>\$ 21427</u>		

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

BALANCE SHEET - WATER FUND*MARCH 31, 2005***ASSETS**

Cash and Deposits:

Restricted	\$ 135838
Unrestricted	7868
Accounts Receivable	40864
Property, Plant and Equipment	3870211
Accumulated Depreciation	<u>(1070135)</u>

TOTAL ASSETS	<u>\$ 2984646</u>
---------------------	--------------------------

LIABILITIES AND FUND EQUITY**LIABILITIES**

Accounts Payable	7742
Deferred Revenue	18900
Due to Other Funds	44829
Bonds Payable	<u>1305000</u>

TOTAL LIABILITIES	1376471
--------------------------	----------------

FUND EQUITY

Retained Earnings	<u>1608175</u>
-------------------	----------------

TOTAL FUND EQUITY	1608175
--------------------------	----------------

TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 2984646</u>
--	--------------------------

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
WATER FUND**

FISCAL YEAR ENDED MARCH 31, 2005

OPERATING REVENUE

Charges for Services	\$ 187546
Miscellaneous Revenue	600
	<hr/>

TOTAL OPERATING REVENUE	188146
--------------------------------	---------------

OPERATING EXPENSES

Personal Services	34215
Administrative and Clerical	5269
Fringe Benefits	2755
Pump House	28782
Professional Fees/Contract Labor	9418
Equipment, Repairs and Maintenance	1264
Water Lines	495
Water Purchases	13861
Depreciation	150355
Miscellaneous	0
	<hr/>

TOTAL OPERATING EXPENSES	246414
---------------------------------	---------------

Operating Profit (Loss)	(58268)
-------------------------	---------

NON-OPERATING INCOME

Interest Income	2119
-----------------	------

NON-OPERATING EXPENSE

Interest Expense	(69037)
------------------	---------

Net Income (Loss)	(125186)
-------------------	----------

RETAINED EARNINGS, APRIL 1	1733361
	<hr/>

RETAINED EARNINGS, MARCH 31	<u><u>\$ 1608175</u></u>
------------------------------------	---------------------------------

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

**STATEMENT OF CASH FLOWS
WATER FUND**

FISCAL YEAR ENDED MARCH 31, 2005

CASH FLOWS FROM (USED BY)

OPERATING ACTIVITIES

Net cash received from fees and services	\$ 183491
Other operating revenues	600
Cash payments to employees for services	(36970)
Cash payments to goods and services	(51859)
Other operating expenses	0
	<hr/>

NET CASH FROM OPERATING ACTIVITIES	\$ 95262
---	-----------------

NON CAPITAL AND FINANCING ACTIVITIES

Increase (decrease) in due to other funds	0
(Increase) decrease in due from other funds	0
Net operating transfers in (out)	0
	<hr/>

NET CASH FROM NON CAPITAL AND FINANCING ACTIVITIES	0
---	----------

CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(57503)
Principal payment on long-term bonds	(20000)
Interest paid on long-term bonds	(69037)
Interest and tax expense	0
Proceeds from borrowings	0
Contributed capital grants	0
	<hr/>

NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(146540)
--	-----------------

INVESTING ACTIVITIES

Interest Income	2119
	<hr/>

NET CASH FROM INVESTING ACTIVITIES	2119
---	-------------

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(49159)
---	----------------

Cash and Cash Equivalents, Beginning of Year	<hr/> 192865
--	--------------

Cash and Cash Equivalents, End of Year	\$ 143706
---	------------------

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

STATEMENT OF CASH FLOWS
WATER FUND
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

**CASH FLOWS FROM OPERATING
ACTIVITIES**

Operating Income	\$ (58268)
Adjustment to reconcile operating income to net cash provided by operating activities:	
. Depreciation	150355
. Provision for uncollectible accounts	0
. Changes in assets and liabilities :	
(Increase) Decrease in accounts receivable	(4055)
Increase (Decrease) in accounts payable	7230
Increase (Decrease) in deferred revenue	0
Increase (Decrease) in customer deposits	0
NET CASH FROM OPERATING ACTIVITIES	<u>\$ 95262</u>

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

BALANCE SHEET

SEWER FUND

MARCH 31, 2005

ASSETS

Cash and Deposits:

 Restricted

\$ 134087

 Unrestricted

33475

Accounts Receivable

9494

Property, Plant and Equipment

2700455

Accumulated Depreciation

(1651776)

TOTAL ASSETS

\$ 1225735

LIABILITIES AND FUND EQUITY

LIABILITIES

Accrued Interest

3369

Bonds Payable

271000

Due to Other Funds

28850

TOTAL LIABILITIES

303219

FUND EQUITY

Retained Earnings

922516

TOTAL FUND EQUITY

922516

TOTAL LIABILITIES AND FUND EQUITY

\$ 1225735

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
SEWER FUND**

FISCAL YEAR ENDED MARCH 31, 2005

<u>OPERATING REVENUE</u>	
Charges for Services	\$ 86467
Miscellaneous Revenue	200
	<hr/>
TOTAL OPERATING REVENUE	86667
 <u>OPERATING EXPENSES</u>	
Personal Services	27918
Administrative and Clerical	1938
Fringe Benefits	1353
Lift Stations/Equipment	15180
Depreciation	69935
	<hr/>
TOTAL OPERATING EXPENSES	116324
Operating Profit (Loss)	(29657)
 <u>NON-OPERATING INCOME</u>	
Interest Income	3419
 <u>NON-OPERATING EXPENSE</u>	
Interest Expense	(13866)
Net Income (Loss)	(40104)
RETAINED EARNINGS, APRIL 1	<hr/>
	962620
RETAINED EARNINGS, MARCH 31	<hr/>
	\$ 922516

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

STATEMENT OF CASH FLOWS

SEWER FUND

FISCAL YEAR ENDED MARCH 31, 2005

CASH FLOWS FROM (USED BY)

OPERATING ACTIVITIES

Net cash received from fees and services	\$ 87065
Other operating revenues	200
Cash payments to employees for services	(29271)
Cash payments to goods and services	(17118)
Other operating expenses	0
	<hr/>

NET CASH FROM OPERATING ACTIVITIES	40876
---	--------------

NON CAPITAL AND FINANCING ACTIVITIES

Increase (decrease) in due to other funds	(15000)
(Increase) decrease in due from other funds	0
Net operating transfers in (out)	0
	<hr/>

NET CASH FROM NON CAPITAL AND FINANCING ACTIVITIES	(15000)
---	----------------

CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	0
Principal payment on long-term bonds	(18000)
Interest paid on long-term bonds	(14450)
Interest and tax expense	0
Proceeds from borrowings	0
Contributed capital grants	0
	<hr/>

NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(32450)
--	----------------

INVESTING ACTIVITIES

Interest Income	3419
	<hr/>

NET CASH FROM INVESTING ACTIVITIES	3419
---	-------------

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3155)
---	---------------

Cash and Cash Equivalents, Beginning of Year	<hr/>
	170717

Cash and Cash Equivalents, End of Year	\$ 167562
--	------------------

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

STATEMENT OF CASH FLOWS
SEWER FUND
(CONTINUED)

FISCAL YEAR ENDED MARCH 31, 2005

**CASH FLOWS FROM OPERATING
ACTIVITIES**

Operating Income	\$ (29657)
Adjustment to reconcile operating income to net cash provided by operating activities:	
. Depreciation	69935
. Provision for uncollectible accounts	0
. Changes in assets and liabilities :	
(Increase) Decrease in accounts receivable	598
Increase (Decrease) in accounts payable	0
Increase (Decrease) in deferred revenue	0
Increase (Decrease) in customer deposits	0
NET CASH FROM OPERATING ACTIVITIES	<u><u>\$ 40876</u></u>

The notes to the financial statements are an integral part of this report.

BATES TOWNSHIP

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
TRUST AND AGENCY FUNDS**

FISCAL YEAR ENDED MARCH 31, 2005

	<u>Balance 3/31/2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 3/31/2005</u>
<u>ASSETS</u>				
Cash	<u>\$27508</u>	<u>\$1243237</u>	<u>\$1243085</u>	<u>\$27660</u>
TOTAL ASSETS	<u>\$27508</u>	<u>\$1243237</u>	<u>\$1243085</u>	<u>\$27660</u>
<u>LIABILITIES</u>				
Due to Other Funds	\$4337	\$213093	\$212923	\$4507
Due to State of Michigan	16159	23105	23242	16022
Due to Schools	1386	376500	376597	1289
Due to ISD	71	62084	62085	70
Due to County	5046	533459	533231	5274
Due to Library	509	34071	34082	498
Due to Other	<u>0</u>	<u>925</u>	<u>925</u>	<u>0</u>
TOTAL LIABILITIES	<u>\$27508</u>	<u>\$1243237</u>	<u>\$1243085</u>	<u>\$27660</u>

The notes to the financial statements are an integral part of this report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

DS Rostagno, CPA, P.C.

**101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042**

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Bates Township
Iron River, Michigan 49935

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as of and for the year ended March 31, 2005, which collectively comprise **Bates Township's** financial statements, and have issued our report thereon dated May 17, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Bates Township's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no such matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters


As part of obtaining reasonable assurance about whether **Bates Township's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

Compliance and Other Matters (Continued)

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters involving the internal control structure and its operations that we have reported to the management of **Bates Township**, Iron River, Michigan in a separate letter dated May 17, 2005.

This report is intended solely for the information and use of the audit committee, management, the Board, and federal awarding agencies and pass-through entities, and it is not intended to be, and should not be, used by anyone other than these specified parties.



Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.

May 17, 2005

DS Rostagno, CPA, P.C.

**101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042**

Members of the Township Board
Bates Township
3070 East US-2
Iron River, Michigan 49935

In planning and performing the audit of the financial statements of **Bates Township**, I considered the Township's internal control structure to plan the auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure.

However, during my audit, I noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. This letter does not affect my report dated June 02, 2004 on the financial statements of **Bates Township**. I will review the status of these comments during my next audit engagement. My comments and recommendations, which have been discussed with appropriate township officials, are intended to improve the internal control structure or result in other operating efficiencies. I will be pleased to discuss these comments in further detail at your convenience or to assist you in implementing the recommendations. My comments are summarized as follows:

BUDGETS

**** Problem**

Public Act 621 of 1978, Section 17 (1), as amended, provides that a local unit shall not incur expenditures in excess of amounts appropriated.

During the fiscal year ended March 31, 2005, the Township had several expenditures in excess of the amounts appropriated.

Recommendation

Periodically, budgeted amounts should be compared to actual expenditures and the budget amended accordingly.

LIQUOR LAW ENFORCEMENT FUND

**** Problem**

It was brought to the attention of the Board in conjunction with the prior several audits that the activity for the Liquor Law Enforcement Fund was being recorded in the General Fund. This also creates a deficit budget in the Liquor Law Enforcement Fund.

LIQUOR LAW ENFORCEMENT FUND (Continued)

Recommendation

It was noted that the Liquor Law Enforcement Fund is a Special Revenue fund, the activity of which should be recorded in the Liquor Law Enforcement Fund.

Resolution

This has been satisfactorily resolved.

Current Recommendation

Revenues and expenditures for Liquor Law Enforcement should correctly be reported and budgeted in the Liquor Law Enforcement Fund.

CONSTABLE

**** Problem**

It was noted that payroll time sheets were not being turned in to the Clerk on a timely basis. In addition, inspection reports for Liquor Law Enforcement were not being turned in to the Township's office, where they should be retained on file.

Recommendation

It was recommended that the Constable turn in inspection reports and time sheets on a regular basis.

Resolution

This was satisfactorily resolved during the fiscal year.

CASH RESERVES

**** Problem**

Bond and Interest Redemption Fund

The bonding ordinance for the Water Supply System revenue bond requires certain cash balances be reserved for the bond payment. Each quarter of the fiscal year, revenues must be transferred to the Bond and Interest Redemption Fund before any expenditures or transfers.

Sufficient amounts have not been set aside to pay the principal and interest payments accruing on the bonds.

BATES TOWNSHIP

Page 3


CASH RESERVES (Continued)

Recommendation

It is recommended that sufficient monies be transferred into the reserve accounts to bring the Township into compliance with the bonding ordinance and that each quarter sufficient amounts need to be transferred to the Bond and Interest Redemption Fund to pay for the principal and interest payments.

I wish to express my appreciation to the Township officials for their assistance during my audit engagement.

This report is intended solely for the information and use of the Township Board.



Dianne S. Rostagno
DS ROSTAGNO CPA, P.C.

May 17, 2005

DS Rostagno, CPA, P.C.

***101 West Maple Street, Iron River, MI 49935
Tel (906) 265-1040 Fax (906) 265-1042***

May 17, 2005

Members of the Township Board
Bates Township
Iron River, Michigan 49935

We have audited the general purpose financial statements of **Bates Township** for the year ended March 31, 2005, and have issued my report thereon dated May 17, 2005. Professional standards require that we provide you with the following information related to the audit:

Our Responsibility under Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated March 16, 2005, our responsibility, as described by professional standards, is to plan and perform the audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of the audit, we considered the internal control of **Bates Township**. Such considerations were solely for the purpose of determining the audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of **Bates Township's** compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by **Bates Township** are described in the Note to the general purpose financial statements. No new accounting policies were adopted and the application of existing policies was not changed during this year. We noted no transactions entered into by **Bates Township** during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the general purpose financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the general purpose financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

There were no sensitive estimates affecting the financial statements as presented.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by **Bates Township** that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on **Bates Township's** financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as **Bates Township's** auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing the audit.

This information is intended solely for the use of the Board and management of **Bates Township** and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Dianne S. Rostagno
DS ROSTAGNO, CPA, P.C.